



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Thurman Street and Sewer Hook-Up Fee
Economic Development Incentives

MEETING DATE: July 6, 1994

PREPARED BY: City Manager

RECOMMENDED ACTION: That the City Council review and consider the City paying for improvements to the south side of Thurman Street fronting the Minton property and sewer hook-up fees for the new business purchasing the Minton property.

BACKGROUND INFORMATION: In keeping with the Economic Development Goals and Objectives approved by the City Council at the March 2, 1994, City Council meeting, staff have been diligently working with a particular company from outside of the area to attract them to Lodi. The company manufactures materials used within the printed circuit board manufacturing industry and is in need of a new facility to expand its product line and production capacity. The business currently has 80 employees at its Bay Area site, of which an expected 32 would relocate to Lodi. The company anticipates expanding to 160 by September 30, 1996, which would mean hiring an additional 128 employees over the next two years. Of the 160 employees, 30 would be salaried with salaries ranging from approximately \$24,000 to \$150,000 with the average about \$32,000. The remaining 130 employees would be hourly with wages ranging from \$5.50 to \$11.50 per hour and averaging about \$7.00.

The business incentives (totalling \$229,250) include the following:

- ° \$131,000 - Thurman Street Improvements - Includes two elements:
 - south half fronting the developed portion of the Minton (\$74,000)
 - south half fronting the undeveloped portion of the Minton property east of the developed portion (\$57,000)

The new business intends to sell the undeveloped property to help capitalize for their future growth.

APPROVED _____

THOMAS A. PETERSON
City Manager



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- ° \$40,000 - Utilities in Thurman Street

This will serve the developed and undeveloped part of the Minton property

- ° \$58,250 - Sewer Connection Fees

The project will require wastewater treatment plant capacity over that previously paid by the Minton's

- ° City to assist with Industrial Development Bonds (no additional cost to the City)

City staff has prepared an economic analysis to indicate the length of time it would take before the City would realize a direct return in its investment (see attached memo from City Engineer to Economic Development Coordinator). In preparing the economic analysis, certain assumptions were made regarding amount of sales tax which would be generated by the increase in employees spending money in Lodi, the number of homes which would be sold versus rented, equipment purchased locally, the multiplier affect, and various other assumptions. These assumptions were discussed with the San Joaquin Partnership and Suzanne Lampert from Mundie & Associates. According to Ms. Lampert, the assumptions made in the analysis are "defensible." The analysis indicates that it will take approximately five years before the City will see a return in tax dollars for the City's investment.

Based on the amount of the incentives being requested, coupled with the company's confidence in forecasting future growth, the City Council may want to consider the following as a safety net against the City investing too much funding into one project.

That the amount of the direct subsidy be set up as a loan to the business, secured by a lien on the property, and "forgiven" over five years at 10% the first year, 15% the second year and 25% each of the following three years provided that the business:

- 1) Reach an employment level of 160 full-time equivalent employees by January 1, 1997.
- 2) Reduce water consumption to some agreed upon amount using best available technology including recycling cooling water by January 1, 1998.

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The City Attorney would have to prepare such an agreement with the business which would then be brought back to Council at a future meeting.

The joint City/Chamber Economic Development Task Force, at its June 20, 1994, meeting, endorsed the City providing the aforementioned incentives to the new business as a means of attracting high paying new jobs to Lodi.

FUNDING: As recommended in attached memo

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas A. Peterson", with a stylized flourish at the end.

Thomas A. Peterson
City Manager

Prepared by:

Richard C. Prima, Jr., City Engineer
Janet S. Keeter, Economic Development Coordinator

TAP:br

Attachment



MEMORANDUM, City of Lodi, Public Works Department

To: Economic Development Coordinator
From: City Engineer
Date: June 29, 1994
Subject: Fiscal Analysis of new Minton property project

As part of negotiations with the manufacturing business interested in the Minton property, the City has been asked to fund a number of public improvements normally borne by the property owner and to waive sewer connection fees. (Normal development impact mitigation fees have not been an issue on this project as they have already been paid for the developed portion of the property.) The total City participation requested is \$275,250. (See Exhibit A for a map of the area.) The specific costs and fees in question are:

- \$74,000 - Thurman Street improvements (south half) fronting the developed portion of the Minton property, which the current owner agreed to install under a prior improvement deferral agreement;
- \$57,000 - Thurman Street improvements (south half) fronting the undeveloped portion of the Minton property east of the developed portion. The new business intends to sell this property for development by others in order to recoup part of their overall costs and to reinvest in the business;
- \$86,000 - Utilities in Thurman Street. These will serve the undeveloped adjacent properties and properties further east; and,
- \$58,250 - Sewer Connection Fees. The project will require wastewater treatment plant capacity over that previously paid.

In addition, the City has committed to build the north side of Thurman Street (excluding the sidewalk) at an additional cost of \$93,000. We have assumed that this work would be funded out of the \$200,000 set aside in the 1994/95 Capital Improvement Program for Economic Development projects (page E-8 in the draft budget), leaving \$107,000 available for other projects. Since the Minton frontage costs and wastewater connection fees are all ones that have been borne by new development for many years and will continue for the foreseeable future, the City needs to be careful and deliberate in considering whether or not and how to subsidize these costs for any particular new business. Based on conversations with the Public Works, Finance and Community Development Directors, the City Attorney and City Manager, it appears the following items should be accomplished in connection with project subsidies:

- 1) Adopt specific criteria for which types of businesses such subsidies will be considered, such as Industrial/Manufacturing with 50 or more full time employees; not for speculative land development or other types of development;

- 2) Require a positive economic analysis in terms of the cost of the subsidy and actual City tax revenue (i.e. General Fund revenue, not fees for service or similar charges);
- 3) Require some commitment from the business in terms of length of stay and obligation to repay the subsidy.

The first item is needed to provide overall policy direction from the City Council for staff to be able to deal with the myriad of questions that will follow from past and future developers; i.e., why them and not me? This should be done before or concurrently with a specific agreement with the Minton property developers.

The second item has been addressed in two ways. A summary of the first is shown in Exhibit B. We borrowed a spreadsheet model from the San Joaquin Partnership and modified it to suit Lodi's and this project's circumstances. It estimates that the City will receive slightly over \$29,000 in annual direct tax revenue from the operations of the business and expenditures from its employees. To recoup the \$275,250 subsidy would require nine years. To recoup the subsidy in just five years, the City would need to receive 2.2 times the direct revenue from secondary taxes generated by others who benefit from this new business (i.e., a multiplier effect). Some points and comments on the model are:

- Two-thirds of the tax revenue is generated by the in-lieu tax on City utilities and are fairly straightforward to estimate;
- Nearly all the remaining tax revenue is based on sales and property taxes from the business and new employees and involve many assumptions, thus the numbers are more inexact;
- The model was briefly reviewed by the fiscal consultant for the Central City Revitalization project. Her comments were incorporated into the model and she felt the assumptions mentioned above were reasonable and defensible.
- Assuming the City proceeds with an area of benefit for some of the utilities as discussed later in this memo, the actual subsidy would be slightly less.
- The "multiplier" is an important number and is very difficult to evaluate. Our consultant noted studies that have indicated figures ranging from 2.0 to 3.5. This number will vary considerably depending on the city, location, demographics and other factors. For example, in a city with a business license tax based on gross receipts, money spent locally by a manufacturing company in the conduct of its operations and by its employees, will result in higher tax revenue from that source than in Lodi where the business license tax is trivial compared to other sources.

The multiplier shown in this model was back calculated to provide a payback on the subsidy within five years. The calculated multiplier of 2.2 appears to be reasonable. The importance of a short payback is discussed in the next item.

- The model does not include ongoing City costs for Public Safety and other government functions borne by the General Fund. With a short payback, we are assuming that we can forego these costs for that time frame, i.e., we won't hire an additional police officer for a few years due to the demands created by this business and its secondary effects. The relative importance of this factor is considered in the second analysis discussed next.

As a rough check on the above analysis and to consider ongoing general fund expenses, a second, brief analysis is shown below:

FY 94/95 City Population:		55,453	
Additional New Residents from Project:		68	
Expenditures			
Program	FY 94/95 Cost	Cost per Resident	Added Cost for New Residents
Public Safety	\$10,141,000	\$ 183	\$12,400
Leisure, Cultural & Social	2,883,000	52	3,500
General Government	4,980,000	90	6,100
	Total:	\$ 325	\$ 22,000
Revenues			
Sales Tax	\$ 5,270,000	\$ 95	\$ 6,460
Property Tax	2,772,300	50	3,400 *
Franchise (Utility) Taxes	5,859,500	106	7,200 *
	Total:	\$ 251 **	\$ 17,060

* Property & utility taxes estimated on a per person basis is not accurate and should be adjusted for land use types and the increment of the proposed business. This is shown as an approximation only.

** Difference between total revenue and expenditures is made up by other sources and fees.

The above expenditure information shows an annual cost below that of the estimated annual direct tax revenue (under the first analysis) generated by the new business. Thus, once the subsidy is recovered, there will be a net benefit to the operation of the City. The above revenue information, using a different approach, albeit incomplete and very approximate, points out the City's ongoing problem with expenses exceeding general tax revenue. If we are to use direct subsidies to encourage economic development, we need to be sure the City will have the cash flow necessary to maintain operations as well as pay the cost of the subsidies.

If the Council wishes to offer all the subsidies described at the beginning of this memo, we recommend the following (options for partial subsidies have not been addressed):

- 1) That the \$74,000 for Thurman Street improvements (south half) fronting the developed portion of the Minton property be paid out of the Capital Improvement Program account for "Economic Development Projects", leaving \$33,000 available;

- 2) That the \$57,000 for Thurman Street improvements (south half) fronting the undeveloped portion of the Minton property east of the developed portion also be paid out of the above account. With the present competitive bid climate we may get the entire project done with the funds available.

If a loan is needed, it should be from the Electric Utility which has set aside funds for Thurman Street under earlier development plans which called for the Electric Utility to front the construction of Thurman Street in order to provide access to the new Industrial Substation. Interest would be paid as already provided in the City ordinance regarding impact fee interfund borrowing.

(The Electric Utility, with some Water Utility participation, will also be paying \$123,000 for the access road and north half of the street and utility improvements fronting the substation and the Diekman family, from whom the City purchased the site will be paying for the south half, approximately \$75,000);

- 3) That the \$86,000 for utilities in Thurman Street which will serve undeveloped adjacent properties and "upstream" properties further east be paid from the applicable utility fund and that the City establish an area of benefit from which the installation costs would be recovered from the benefited properties as they develop. Note that this includes some of the vacant Minton property which the new business has requested be included in the direct subsidy. We can accommodate their request, and not include the vacant Minton property in the reimbursement area, however, until the benefit area is established, we can only estimate the value of the subsidy. For purposes of discussion, it has been estimated at \$40,000;
- 4) That the \$58,250 in sewer connection fees, if needed, be loaned from the Wastewater fund and paid back from next year's planned General Fund \$200,000 allocation to the Economic Development Projects account. The project will require substantial wastewater treatment plant capacity over that previously paid due to their higher number of employees and high water demand. Note that this figure is based on the anticipated number of employees and estimated industrial discharges. It is unlikely that this level will be reached in 1994/95. The charges would not be made until needed due to actual flows.

(An alternative to this arrangement would be to develop a special wastewater rate surcharge so the business could pay the charges over time.);

- 5) That the amount of the direct subsidy be set up as loan to the business, secured by a lien on the property, and "forgiven" over 5 years at 10% the first year, 15% the second year and 25% each of the following 3 years provided the business:
- Reach an employment level of 160 full time equivalent employees by Jan. 1, 1997, and;
 - Reduce water consumption to some agreed upon amount using best available technology including recycling cooling water by Jan. 1, 1998.

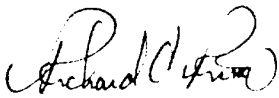
An agreement between the City and the new business will need to be prepared covering item 5) above. The will have to be done by the City Attorney and reviewed by

the other City staff and the new business and may take a number of weeks. It would be brought back to the City Council for final approval.

In summary, the funding for the full requested subsidies and the previous City offer regarding the north side of Thurman Street is as follows:

1. Thurman Street, north side	\$93,000	Economic Development CIP account
2. Thurman Street, south side and utilities serving Minton property	\$131,000 plus \$40,000 (approx.)	Economic Development CIP account, up to \$200,000; balance as loan from Electric Utility to be paid from future Economic Development CIP allocation
3. Thurman Street, utilities serving adjacent and "upstream" property	\$46,000	Applicable Utility funds, to be reimbursed upon development
4. Wastewater Connection Fees	\$58,250	Economic Development CIP account as loan from Wastewater Utility to be paid from future Economic Development CIP allocation
Direct Subsidy Subtotal:	\$229,250	Items 2 and 4 only
Total Costs:	\$368,250	

If you have any questions, please contact me at your convenience.



Richard C. Prima, Jr.
City Engineer

RCP/rcp
attachment

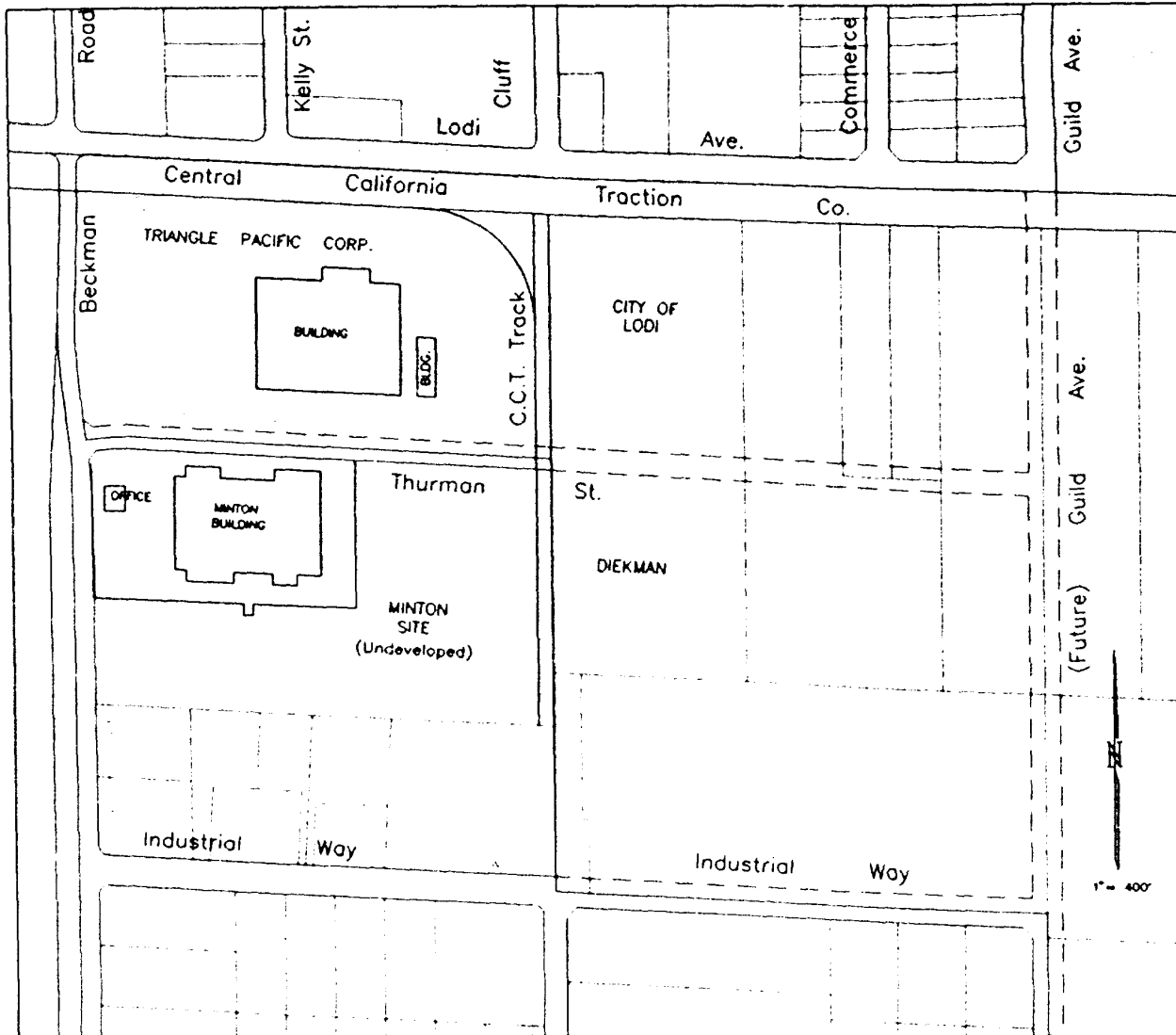
cc: City Attorney
Public Works Director
Finance Director
Community Development Director



CITY OF LODI

PUBLIC WORKS DEPARTMENT

THURMAN STREET & VICINITY



LEGEND:

Future R/W

City of Lodi - Industrial Project Cost/Benefit Analysis

Exhibit B

Summary of Fiscal Analysis for:

Minton Property Reuse
400 S. Beckman Road

Total employment*: 160		incl. 26 new City resident employees
Total Payroll*: \$2,780,000		
Total Cost of Requested City Participation: \$275,250	(excludes \$93,000 for north side of Thurman St. already committed by City)	
Annual Direct Tax Revenue to City*: \$29,516	breakdown:	
	\$18,000	Electric Revenue contribution to General Fund
	\$4,110	Sales Taxes from employees
	\$2,988	Property Taxes from development
	\$2,892	Property Taxes from employees
	\$624	Wastewater Revenue contribution to General Fund
	\$400	Sales Taxes from operations
	\$365	Water Revenue contribution to General Fund
	\$137	Business License Tax
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	\$29,516	Total
Payback time based on direct tax revenue:	9 years	
Total annual revenue for 5 year payback**:	\$64,065 or	2.2 times direct revenue

* figures based on buildout expected to occur in approximately 2 to 3 years

** payback time allows for reduced revenue in early years of project.